

**REPORT OF THE AUDIT OF THE
WARREN COUNTY
CLERK**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WARREN COUNTY CLERK

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Warren County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Warren County Clerk had net revenues of \$2,080,628, which was a \$72,265 decrease from the prior year. The clerk paid 25% of receipts to the Warren County Fiscal Court in the amount of \$492,252. This was a decrease of \$19,704 from the prior year. In addition, expenditures in the operating fund increased by \$134,937.

Report Comment:

- The Clerk Should Not Have A Deficit Balance In The 75% Operating Fund

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael Buchanon, Warren County Judge/Executive
Honorable Dorothy Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Warren County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2004. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2004, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2005, on our consideration of the Warren County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Michael Buchanon, Warren County Judge/Executive
Honorable Dorothy Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comments:

- The Clerk Should Not Have A Deficit Balance In The 75% Operating Fund

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Warren County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 10, 2005

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services		\$	35,683
Fiscal Court			19,138
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	2,479,149	
Usage Tax		12,708,090	
Tangible Personal Property Tax		5,970,190	
Notary Fees		31,646	
Lien Release Fees		27,801	
Other-			
Marriage Licenses		26,806	
Occupational Licenses		1,370	
Deed Transfer Tax		539,137	
Delinquent Taxes		389,356	22,173,545
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	70,509	
Real Estate Mortgages		251,149	
Chattel Mortgages and Financing Statements		248,592	
Powers of Attorney		9,398	
All Other Recordings		131,592	
Charges for Other Services-			
Candidate Filing Fees		1,650	
Copywork		43,103	
Postage		21,138	777,131
Other:			
Miscellaneous			8
Interest Earned			1,601
Total Revenues		\$	23,007,106

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 1,914,145

Usage Tax 12,326,248

Tangible Personal Property Tax 2,104,556

Licenses, Taxes, and Fees-

Delinquent Tax 78,711

Legal Process Tax 85,981

Candidate Filing Fees 750 \$ 16,510,391

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 709,668

Delinquent Tax 73,551

Deed Transfer Tax 512,180

Occupational Licenses 864 1,296,263

Payments to Other Districts:

Tangible Personal Property Tax \$ 2,917,155

Delinquent Tax 142,261 3,059,416

Payments to Sheriff

3,547

Payments to County Attorney

55,912

Other:

Miscellaneous 949

Total Expenditures \$ 20,926,478

Net Revenues \$ 2,080,628

Payments to State Treasurer:

75% Operating Fund \$ 1,588,376

25% County Fund 492,252 \$ 2,080,628

Balance Due at Completion of Audit \$ 0

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2004

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2004	\$ 21,400	\$	\$ 21,400
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,588,376		1,588,376
Fees Paid to State - County Funds (25%)		492,252	492,252
Total Funds Available	\$ 1,609,776	\$ 492,252	\$ 2,102,028
<u>Expenditures</u>			
Warren County Government	\$	\$ 492,252	\$ 492,252
Personnel Services-			
County Clerk's Salary	80,383		80,383
Deputies' Salaries	965,723		965,723
County Clerk's Expense Allowance	3,600		3,600
Training Incentives	1,546		1,546
Employee Benefits-			
Employer's Share Social Security	75,508		75,508
Employer's Share Retirement	83,174		83,174
Employer's Paid Health Insurance	126,970		126,970
Employer's Paid Dental Insurance	7,542		7,542
Employer's Paid Life Insurance	866		866
Other Payroll Expense	5,051		5,051
Unemployment Insurance	630		630
Contracted Services			
Computer Leases and Maintenance	250,537		250,537
Other Charges-			
Copier Rental & Maintenance	26,966		26,966
Office Supplies	22,888		22,888
Postage	25,000		25,000
Other Office Expense	6,669		6,669

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures (Continued)</u>			
Other Charges-			
Office Furnishings	\$ 24,509	\$	\$ 24,509
Prepare Tax Bills	11,105		11,105
Insurance and Bonds	5,177		5,177
Telephone	8,422		8,422
Recording Books and Binders	13,067		13,067
County Clerk's Dues and Conventions	435		435
Travel Expenses	1,998		1,998
Maintenance and Repairs	3,030		3,030
Books and Guides	1,571		1,571
Miscellaneous	990		990
Office Equipment	1,117		1,117
Total Expenditures	\$ 1,754,474	\$ 492,252	\$ 2,246,726
Fund Balance - December 31, 2004	\$ (144,698)	\$ 0	\$ (144,698)
(See Note 5)			

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2004

The Attorney General issued a letter that stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004
(Continued)

Note 3. Deposits (Continued)

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the County Clerk's agent in the County Clerk's name.

Note 4. Leases

A. Software Management, Inc.

On June 15, 2003, the Clerk entered into two 60-month lease agreements with Software Management, Inc (SMI) for the lease and maintenance of computer hardware, software, and the licensing and updating of the software. The lease agreements require a monthly lease payment of \$20,804 (\$15,855 for hardware and \$4,949 for the software) for a total lease obligation over 5 years of \$1,248,240. The following tables denote the Clerk's lease obligations for the remainder of the lease term.

Computer Equipment

Calendar Year	Annual Principal	Annual Interest	Remaining Lease Obligation
2005	\$ 79,995	\$ 21,254	\$ 244,687
2006	86,635	14,615	143,437
2007	93,826	7,424	42,187
2008	41,356	831	0
	<u>\$ 301,812</u>	<u>\$ 44,124</u>	<u>\$ 0</u>

Software License and Equipment Maintenance

Calendar Year	Annual Payments	Remaining Lease Obligation
2005	\$ 148,410	\$ 358,659
2006	148,410	210,249
2007	148,410	61,838
2008	61,838	0
	<u>\$ 507,068</u>	<u>\$ 0</u>

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004
(Continued)

Note 4. Leases (Continued)

B. Other Leases

The office of the County Clerk was also committed to seven additional lease agreements with three companies for copiers, a fax machine and a postage meter. The total balance on the lease agreements as of December 31, 2004 was \$68,311.

Note 5. Deficit Fund Balance

As of the completion of the audit, the Warren County Clerk had a \$144,698 deficit balance in the 75% operating fund maintained with the state treasurer. As of October 31, 2005, the deficit balance was \$273,324. The County Clerk is currently taking steps to eliminate the deficit balance by the end of her term on December 31, 2006.

Note 6. Libraries and Archives Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$20,474. No funds were expended during the year. The unexpended grant balance was \$20,474 as of December 31, 2004.

COMMENT AND RECOMMENDATION

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Clerk Should Not Have A Deficit Balance in The 75% Operating Fund

As of December 31, 2004, the Clerk's 75% operating fund held with the state treasurer had a deficit balance of \$146,535. KRS 64.350 (1) notes that for counties having a population of seventy thousand (70,000) or more, the salaries of the county clerks and sheriffs and of their deputies and all necessary office expenses, including the equipping, furnishing, maintaining, and operation of the offices, shall be paid out of the State Treasury in amounts not to exceed seventy-five percent (75%) of the fees collected by the officers respectively, and received into the treasury. As of October 31, 2005, the deficit balance in the 75% operating fund was \$273,324. The Clerk has until the end of her term December 31, 2006 to eliminate the deficit in the 75% operating fund. The auditor recommends the Clerk take the necessary steps to eliminate the deficit.

County Clerk's Response:

I am adjusting my payroll and cutting the budget where I can. I will be asking fiscal court for their help in this matter.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael Buchanon, Warren County Judge/Executive
Honorable Dorothy Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Warren County Clerk for the year ended December 31, 2004, and have issued our report thereon dated November 10, 2005. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Clerk's financial statements as of December 31, 2004, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

- The Clerk Should Not Have A Deficit Balance In The 75% Operating Fund

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 10, 2005

